SMART PEOPLE

INVESTS SMARTLY

KNOWLEDGABLE PEOPLE

INVESTS FOOLISHLY

To my visionary leader Mr. R Chenraj Jain to whom I shall remain indebted for setting the foundation on which this book is based. He is the person who is simple, down to earth, and have grown not for himself but for the youth and students in general. He is the person who wants to contribute something to the GDP of India not by himself but through the youth power counseled by him. He is the person who made me realize the concept of “We” rather than “I”. He inspires and informs people, helping them to realize their true potential. He has taken his dynamic personal messages to every corner of India. His common sense approach and deeply held beliefs have motivated countless thousands to re-evaluate their attitudes.

Saket Jalan

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J.P.Morgan was once asked what the market was going to do. He replied, “It will fluctuate”. This is the most important possible truth. We need to get deeply into our bones the sense that any market and the stock market, moves in cycle so that we will infallibly get wonderful bargains every few years and have a chance to sell again at ridiculously high prices a few year later. Lets go through a complete cycle….

THE MARKET CYCLE AND ITS CHORUSES

The Washout: "All Is Lost"

At a major bottom current business news is usually terrible and many authorities feel that things are likely get even worse. The brokerage business is likely to be in dumps with many bankruptcies, Eventually a point is reached where everybody who can be scared into selling has sold. Usually, the final battle occurs in a few days of extremely high volume- a selling climax. At this point the ordinary investor, who has gone over the waterfall is groggy, bruised and sick, is ear ringing. He does not want to hear about the stocks, never again.

The Early Surge: " Its too Early to Buy…"

We are at the beginning of the dynamic phase of the bull market. The optimum buying " window" will last for only a few months, but it is prudent to hold off most of your buying until the market has clearly turned and is full and by on the new course. You can usually recognize when the upward trend has been solidly established. The professional investors does not mind paying 20% more for a stock that has been cut by two thirds to be quite certain that it is not going to go down a lot more.

The government shocked by the decline as always beset by the clamor to do something, pumps liquidity into the economy which of course does not take effect instantly. Stock market pundits declared that this time the stimulus is not working.

The months go by and the price rises. The misery of the recent past is quickly forgotten, like a throne extract from your foot. A few mutual funds will have been started during the bottom area and article in the financial press being point out that 'X fund' has grown by 75% in six months. One starts hearing story of the people who made a lot of money.

The Surge Continues: "Prices Seem High…. It's too late too Buy."

More months pass and the market can now be seen to have established a rising channel for itself. The 'Index' oscillates from top of the channel to the bottom, but continues to in the same broad upward path. There will be few significant reactions during this phase of the new bull market.

The rising prices of the principal stock attract more buying from the professional and from institutions that have been waiting on the sidelines; this additional buying puts prices still higher. The higher prices in turn give confidence to more buyers, who enter the market putting prices higher still. The whole system continues to feed upon itself, to rise and build like prairie twister.

The general public during this phase moves from feeling that it's too early to buy to feeling that it's to late to buy.

The Second Stage of the Rocket: “Prices Are High, But Maybe It’s Okay to Buy…”

Times passes. Then public, which has been apathetically watching from the sidelines starts to become interested. There are a number of downward legs or tests, against the bottom of the market rising channel each time the test is reversed at a higher level than before. The longer the channel remains intact, the more it is consider invulnerable but the more it is considered invulnerable the closer it is to a bust. Most times there is eventually pronounced and unmistakable rise in the volume fervor and the tempo of the dance continue to mount. The music play louder and louder more and more spectators join in.

Not a Cloud in the Sky: “Buy!”

More months go by and the public hooked. Business news is excellent. The standard forecast of the economic is optimistic. Some particular industry surfaces as the center of attention and the focus self-confirming myth as the brokers and professional bid up these “ talisman” stocks to irrational heights.

The Blow off: " Stocks can only go Up"

Hot manager become famous. Hot manager become famous. Young, Glib, impatient of the conventional wisdom, they collect huge sums from trustful and greedy investor hoping for miracles. The volume of hot manager trading may become a significant part of the whole market. They chase a new theme as a pack. A broker can sell any stock by letting it be known that he is in touch with a few big operators who are getting behind it.

Most new issues, even companies without a history or even established management rise to an immediate premium. At cocktail parties, people talk excitedly about the latest prodigy. News of your neighbour buying a new car with profit of stock is heard. Now people jump into the market with both feet, buying all the second and third graded companies, which are called "the star in the making". This is what called a buying panic- the reverse of selling panic.

Coasting: “The markets High, But this time is different….”

As the months wear on stocks hesitate; their upward pace slows with only a few leader making new highs. The market analyst detects this situation as loss of “breath”. For instant, the ratio of advance declines usually starts falling, even though the leaders are still rising. A few enthusiastic still claims that this time thing is different. They rationalize that there is an absolute shortage of stock because of an insatiable institutional or foreign appetite for them, which will support prices at permanently higher level.

The Top: “Hold”

At last the government, concerned about economic “overheating” and stock market speculation starts leaning against the wind. The central bank raises the reserves requirement; the discount rate goes upto notch; margin requirements may be tightened. Here again the government gets what it wants, and in time this process always wrestles down a runway bull market.

The operators suspicious of stock price levels step up the sale of their holding in the market. A series of vicious reactions or chops begins probably for the first time since the cycle started. Sometime later there is a second vicious chop, which usually bottoms at a higher level, than the previous one. The recovery again carries to a high, those who sold out at the *bottom of either reaction feels foolish. Those who jumped at that level are jubilant. Then the southward journey starts and each reaction making a lower bottom.*

The secondary stock those not in the index has been sluggish for months. This is the beginning of the end.

Over the Humps: "Its too Soon to S ell"

The public remains heavily in the market but the professional investors edging out. It is like an ogre's dinner party at which the last guest to leave or eaten themselves. When the chairs begin to be pushed back and napkin placed on the table, the wise diner prepares to dash for the exit as soon as there is any excuse to do it. This crush at the door is why the market goes down much faster than it goes up. The lower quality stocks starts declining significantly.

The Slide: "Prices are Cheap, But it's Too Late to Sell……"

A few months passes and a number of scripts, although not yet the leader have fallen appreciably from their height perhaps 30 percent. The market has been going down for some time. Business news is now felt to be not too good we hear doubts about economic outlook; perhaps there will be a recession next year?

The market like a tired horse that no longer feels the whip, drops on a bad news but fails to respond to the good news.

"Its Okay to Sell"

After a while we may see a severe decline with perhaps25 percent mark off the prices. There is often deceptive recovery, which one might call the " trap rally" the usual sequence is that the lowest quality stocks collapse first, while the top quality issues struggle forward; then the general market start giving ground. Finally the institutional growth stocks let go and everything starts slipping faster and faster. The primary issues are quoted well below their offers.

The Cascade: "Sell"

Now the river sweeps over the brink, carrying everything with it. Business news is a bad. The hot fund managers have to meet redemptions and as such they have to sell.

The Selling Climax: “The Market’s Going Way Down…”

The torrent crashes down the falls. In the frightful plunge some stocks give up in a day their gains of a year and drop 30 to 40 percent in a week or two. It is a so sudden and so awful that for a while many investors finally thrown in the sponge and sell out.

But if you have kept some reserves intact and have the knowledge of recognize value when it’s being dumped by panicky and have the guts to act then at these moment you can make the buys of a lifetime.

Preparing to Invest

Before you think about buying stocks you ought to have made some basic decision about the market, about how much you trust corporate India, about whether you need to invest in the stocks and what you expect to get out of them, about whether you are a short or a long term investor, and about how you will react to sudden, unexpected, and severe drop in the price. Its best to define our objectives and clarify your attitudes beforehand, because if you are undecided and lack conviction, then you are in potential market victim, who abandons all hope and reason at the worst moment and sells out at a loss. It is personal preparation as much as knowledge and research that distinguish the successful stock picker from the chronic loser. Ultimately it is not ten stock market nor even the companies themselves that determine an investors fate. It is the investor.

Do I have the persona l qualities it takes to succeed?

This is the most important question of all. It seems to me the list of qualities –ought to include patience, common sense, a tolerance for pain, open-mindedness, detachment willingness to admit to mistakes and the ability to ignore a general panic. It is also important never clear on dalal street or when they are, then it’s too late to profit from them. Then scientific mind that needs to know all the data will be thwarted here.

The unwary investor continually passes in and out of three emotional states: concern, complacency and capitulation. He 's concerned after the market has dropped or the economy has seemed to falter, which keeps him from buying good companies at bargain prices. Then after he buys at higher prices, he gets complacent because his stocks are going up. This is precisely the time he ought to be concerned enough to check the fundamentals, but he isn't. Then finally when his stocks fall on hard times and prices fall to below what he paid, he capitulates and sells in a snit.

What is the most important attribute of investing?

Patience. In the stock markets you are fighting against greed and fear, two of the most important human emotions. Unless you have a discipline and patience, you are likely to buy wrong companies or buy the right ones at the wrong time.

Rules of Investment Success

 # Invest – don't trade or speculate.

The stock market is not a casino, but if you move in or out of stocks every time they move a point or two, the market will be your casino. And you may loose eventually or frequently.

 # Buy value, not market trends or economic outlook.

Ultimately, it is the individual stocks that determine the market, not vice versa. Individual stocks can rise in a bear market and fall in a bull market. So buy individual stocks not the market trend or economic outlook.

 # Buy low. So simple in concept. So difficult in execution.

When prices are high, a lot of investors are buying a lot of stocks. Prices are low when demand is low. Investors have pulled back, people are discouraged and pessimisistic. But if you buy the same securities everyone else is buying, you will have the same results as everyone else.

 # There's no free lunch. Never invest on the sentiment. Never solely on tip.

You would be surprised how many investors do exactly this. Unfortunately there is something compelling about a tip. Its very nature suggests inside information, a way to turn a fast profit.

 # Learn from mistakes.

The only way to avoid mistakes is not to invest which is the biggest of all. So forgive yourself for your errors and certainly don’t try to recoup your losses by taking bigger risks. Instead turn into a learning experience.

 # Aggressively monitor your investment. Remember, no investment is forever.

Expect and react to change. And there are no stocks that you can buy and forget. Being relaxed does not mean being complacent.

 # Never follow the crowd.

If you buy the same securities as other people you will have the same results as other people. It is impossible to produce superior performance unless you do something different from the majority. To buy when others are despondently seeking and to sell when others are greedily buying requires the greatest fortitude and pays the greatest reward.

 # Buy during the times of pessimism.

Bull markets are born on pessimism; grow on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy. And the time of maximum optimism is the beset time to sell. In almost every activity of normal life people try to go where the outlook is best. You look for a job in an industry with a good future, or build a factory where the prospects are best. But if you are selecting public traded investments you have to do the opposite. You are trying to buy a share at the lowest possible price in relation to what the corporation is really worth. And there is only one reason a share goes to bargain price: because other people are selling. There is no other reason. To get a bargain price, you have to look where the public is most frightened and pessimistic. The time to buy is when everyone is scared and you are a bit scared yourself.

"Gaps between perception and realty are where investment opportunities are born."

The myths and misconceptions

If it's gone down this much already. It can go much lower.

Frequently people say that a particular stock has gone down a third and so it should not go lower. Shareholders of TV 18 would have a good experience of this. The share got listed at Rs. 1450 in the boom of 2000 and with the bear market it went on making new lows and each time the stock continued its southward journey until it reached the price of Rs. 36 so much for that it can't go lower theory.

You can always tell when a stock's hit bottom.

Bottom fishing is a popular investor pastime, but it's usually the fisherman who gets hooked. Trying to catch the bottom on a falling stock is like trying to catch a falling knife. Its normally a good idea to wait until the knife hits the ground and sticks, then vibrates for a while and settles down before you try to grab it. Grabbing a rapidly falling stock results in painful surprises, because inevitably you grab it in the wrong place if you are interested in buying a stock, it ought to be for a more sensible reason than the stock's gone down so far it looks like up to you. Zee television is the finest example to speak about from 1500 level it was supposed to be the best stock to invest in but with every fall in its price it was the best until it reached Rs. 68 in the year 2001.

If it's gone this high already. How can it possibly go higher?

Generally people do not invest in some good companies just because it has already appreciated 200 percent. For example take the case of "Infosys". It got listed at Rs. 180 and then within a few months the price was quoting at Rs. 380. So the people said " Infosys was too costly. But the stock did not stop the upward climb and crossed Rs. 1000 to attract more such remarks. But it has never looked back and is quoting at a price of more than Rs. 5000. If we include all the bonuses and split for the share the figure for Infosys is just mind-boggling.

The point is there's no arbitrary limit to how high a stock can go and if the story is still good, the earnings continue to improve and the fundamentals haven't changed. "Can't go much higher" is a terrible reason to snub a stock.

Its only Rs. 10 a share; what can I loose?

This can be heard a number of times. People say the Rs 10 stock of Eonour Technology.' is safer than the Rs. 2000 of Wipro Ltd. But the price of zero will result in losing 100 percent in both the stocks and the chances of this happening is more in favour of SRG than Wipro.

When it rebound to Rs. X, I will sell.

No downtrodden stock ever returns to the level at which you have decided to sell. In fact the minute you say, "if it gets back to Rs. X, I will sell", you have probably doomed the stock to several years of teetering around just below Rs. X whenever you are tempted to fall for this one, you ask yourself whether you are ready to buy some more share at the lower prices, if the answer is no, sell it immediately.

Look at that money I have lost: I didn't buy it!

This may sound ridiculous thing to mention, but its common to hear people saying that they have lost so much by not investing in the biggest gainers of the bull market. This is happening now with the people who haven't invested in software stocks, which have jumped multifold.

I miss that one I will catch the next one.

This is one of the greatest mistakes of common investors. When they have missed a good growth stock, they readily try to associate some other stock as "next". This has happened in software industry and media sectors. People who have missed Zee or Infosys have tried to associate TV 18, Kale Consultant or KPIT systems Ltd. As the next Zee or Infosys". The result, the stock went up from Rs. 600 to Rs. 1500 within one month.

The Stock gone up, so I must be Right, or…

The Stocks gone down, so I must be Wrong.

One of the greatest fallacy of investing is believing that when a stock price goes up, then you have made a good investment. People often take comfort when there recent purchase of something at Rs.50/- a share goes upto Rs. 60/- as if that proves the wisdom of purchase. Nothing could be further from the truth of course, if you sell quickly at higher price than you have made a profit, but most people don't sell in these favorable circumstances. Instead they convince themselves that the higher price proves that the investment is worthwhile, and they hold on to the stock until the lower price convinces them that the investment is no good. If it is a choice they hold on to the stock that risen from Rs.100/- to Rs.120/- and they get rid of one that's dropped from Rs.100 to Rs.80 while telling themselves that they have "kept the winner and dump the loser".

Contrarian Investing.

Some have fancied themselves contrarians, believing that they can profit by zigging when the rest of the world is zagging but it didn't occur to them to become contrarian until that idea had already gotten so popular that contrarianism becomes the accepted view. The true contrarian is not the investor who takes the opposite side of the popular hot issue (i.e. shorting a stock that everyone else is buying). The true contrarian waits for things to cool down and buys stocks when nobody cares about.

"This safe time to invest is when there is blood in the street" as the adage goes, and the dangerous one is when everything looks wonderful. That has to be so in the market situation. If all the children sit on the south end of the seesaw because that is the end that is going up it can't go up. If the outlook is so bright that everybody is fully invested where will the new buying come from to put the market still higher? Quite the contrary the market will probably decline, even if the good news is true.

The principal of contrarianism applies not only to the market as a whole but also to major sectors, such as growth stocks. It is the best to buy the growth stocks when the market is skeptical of them, and does give them as high a price-earning premium.

"Stocks are most likely to be accepted as prudent at the moment they're not.

Observation and Readings

……There are optimists all around you and there is undoubtedly a very insistent one inside your head. Watch out for them all. They can be fuddling your good judgment to an alarming degree.

……When you are feeling optimistic try to judge whether that good feeling is really justified by the facts. At least half the time, it won't be.

……In centuries past, people hearing the rooster crow as the sun came up decided that the crowing caused the sunrise. It sound silly now, but everyday the experts confuse cause and effect on dalal street in offering some new explanation for why the market goes up. Hemlines are up, Japanese are unhappy, a trend line have been broken, stocks are oversold etc.

To Sell or Not to Sell

"……Even more costly reason why an investor should never sell out of an outstanding situation because of the possibility that an ordinary bear market may be about to occur. If the company is really a right one, the bull market should see the stock making a new peak well above those so far attained. How is investor to know when to buy back? Theoretically it

supposes that that the investor will know when the decline will end. I have seen many investor dispose of the holding that was to show stupendous gain in the years ahead because of a coming bear market. Frequently the bear market never came and the stock went right up. When a bear market has come, I have not seen one time in ten when the investor actually got back into the same shares before they had gone up above his selling price. Usually he either waited for them to go far lower than they actually drooped or when were down. Fear of something else happening still prevented their rein statement."

……When a really good irrational panic sets in (or indeed the opposite a bull market blow off) very few people indeed can resist the trend. If they try to they feel acutely uneasy. The heard instinct seems to the strongest human emotions, one that the race is constantly breeding for as the mavericks are liquidated. Happiness is running with the crowd.

……In the very nature of markets at the bottom of a drop almost everybody u encounter will be in despair, particularly the stock brokers whose lively hood is caving in. also other investors who once felt rich and now feel poor. (In a decline people measure down from the top)

……A peculiarity of investment news is that it often follows rather that anticipates price changes. This in a bull market the analyst keep revising their earning estimate to justify the

higher prices then prevailing pretty soon they are discounting the hereafter. And the information will be taken in different ways depending on the market stage. It is like a love affair. In the full tide of a romantic enthusiasm all doubts are swept aside and at the end anything may precipitate a quarrel. In the same way a potential weakness in a company won't hold back its stock in bull market euphoria, but will be used to justify the selling when the tide turns.

……The psychological cycles are easy enough to understand. The ebb and flow or mass emotion is quite regular: panic is followed by the relief and relief by optimism, then comes enthusiasm, then euphoria and rapture, then the bubble bursts and public feeling sides of again into concern, desperation and finally in new panic.

……Warren Buffet believes that investors must be financially and psychologically prepared to deal with markets volatility. Investors should accept their common stocks to fluctuate. Buffet believes that unless you can watch your holdings decline by 50 percent with out becoming panic- stricken you should not be in stock market.

"Valuation of asset based companies will collapse and intangibles will drive future stock prices."

14 golden rules to evaluate any company

1) *Behind every stock there is a company and you should always find out what it is doing. If you can describe about the company in just 500 words your have done your job.*
2) *You should place confidence in what you own and why you own rather than making hue & cry that it should have gone up.*
3) *Having gone through few income statement and balance sheet you should find that they only speaks something available in the market but you should always try to find flaws in those reports. You should never invest without understanding the finance of the company.*
4) *You should invest in the things you understand*
5) *Investing without a research is just like playing a blind game; you should avoid playing blind games.*
6) *You should study facts, annual reports, financial conditions, value the company future outlook and then make a decision.*
7) *You should apply relatively simple methods and trust the company on the basis of value and never on the popularity.*
8) *You should keep away for the bells to ring i.e. to signal you about the end of recession or the beginning of the bull run market because bells never go off. Therefore you should avoid forecasting recession, interest rates, inflation etc.*

9) *You should study for opportunities that have not yet been discovered by the market or companies that are "Off the Radar Scope".*
10) *If fundamentals are not strong for the companies you should avoid altogether and should wait for the better opportunities*
11) *You should always feel that bad management will never give good return in good times but good management will fell the gaps when better times arrives.*
12) *You should always think differently for different company.*
13) *You should always believe that success comes by hard work, patience, persistence, flexibility, willingness to do research and equal willingness to admit to mistakes and ability to ignore general panic.*

14) *You should consider that these eight steps of success would grow your livelihood.*

- *To have a great attitude.*
- *To be in time because it's your money and time makes money.*
- *To be prepared organization is the key of any business.*
- *To work your area correctly i.e. the more you learn, see, talk the more money you will make.*
- *You should never loose your attitude i.e. every bad company will bring you closer to successful companies.*
- *You should know why and what you are doing and to learn the business from the business itself.*
- *You should work ten hours or as many as it takes to reach your goal*
- *You should take control of your clients, situations and your future goals.*

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